

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

PEM0034 – ESSENTIALS OF MACROECONOMICS

(All sections / Groups)

28 MAY 2019
2.30 p.m - 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **(10)** printed pages with:
Section A: **Forty (40)** multiple choice questions (40 marks)
Section B: **Three (3)** structured questions (60 marks)
2. Answer **ALL** questions.
3. Answer **Section A** in the multiple-choice answer sheet and **Section B** in the answer booklet provided.
4. Marks allocations are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Answer all questions in the multiple choice answer sheet.

1. Macroeconomics is concerned with all of the following, except _____.
 - A. general economic factors that determine income.
 - B. general price levels.
 - C. the production decisions involving consumer goods in particular market.
 - D. saving and investments from the standpoint of the whole economy.
2. An improvement in the standard of living is best indicated by an increase in _____.
 - A. real personal income.
 - B. real income per capita.
 - C. nominal national income.
 - D. nominal disposable income.
3. The most important determinant of consumption is _____.
 - A. future income.
 - B. disposable income.
 - C. household wealth.
 - D. dividend.
4. A combination of a decrease in income tax with an increase in government expenditure will _____.
 - A. increase aggregate demand.
 - B. decrease aggregate demand.
 - C. leave aggregate demand unchanged.
 - D. have an ambiguous effect on aggregate demand.
5. According to Circular Flow Diagram of Income and Expenditure, there are inner and outer flow. For outer flow consists of withdrawal and injection. Three types of "withdrawal" are as follows except _____.
 - A. investment.
 - B. savings.
 - C. taxes.
 - D. import expenditure.
6. Without the government and foreign sectors, the formula of multiplier is _____.
 - A. $1/\text{MPS}$.
 - B. $1/\text{MPC}$.
 - C. $1/(1 + \text{MPC})$.
 - D. $1 - \text{MPC}$.
7. When the money is held as an asset, it functions as a _____.
 - A. store of value.
 - B. medium of exchange.
 - C. measure of value.
 - D. standard of deferred payment.

Continued...

8. Money used for transaction is known as _____.
A. M1.
B. M2.
C. broad money.
D. quasi money.
9. The central bank should implement contractionary monetary policy to reduce inflation by _____.
A. increasing the discount rate.
B. decreasing the discount rate.
C. decreasing the required reserve ratio.
D. buying government securities in open market operations.
10. A bank has deposits of RM400, reserves of RM50, and the required reserve ratio is 7 percent. The bank's excess reserves are _____.
A. RM0.
B. RM22.
C. RM28.
D. RM50.
11. If there is an increase in the amount of currency held outside banks, then the _____.
A. quantity of money supplied will increase.
B. quantity of money supplied will decrease.
C. quantity of money supplied will not change.
D. None of the above.
12. Which of the following transactions definitely decreases the liabilities of a bank?
A. A bank sells new shares of bank stock.
B. A bank purchases new computers with cash.
C. A bank sells RM100,000 worth of government securities.
D. A customer withdraws RM1,000 from her checking account.
13. If the Bank Negara Malaysia (BNM) increases the discount rate, _____.
A. commercial banks increase their lending to the BNM.
B. commercial banks pay a lower interest rate if they borrow from the BNM.
C. commercial banks pay a higher interest rate if they borrow from the BNM.
D. commercial banks find it more profitable to increase their loans to businesses.
14. Which of the following statements is correct?
A. There is a transaction demand for money, due to uncertainty about the receipt of future income.
B. The transaction demand for money is not related to income.
C. Speculative demand for money varies inversely with interest rate.
D. The precautionary demand for money is affected by the opportunity cost of holding M1 balances.

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15. Inflation is a situation where there is _____.
A. an increase in the value of money.
B. a loss in income, due to excessive government expenditure.
C. a persistent and sustained increase in the general price level.
D. a rise in real income of consumers.
16. Regardless of whether inflation is demand pull or cost push, the cost and effect of inflation on individuals or economy will depend on whether inflation is _____.
A. weak or strong.
B. increase or decrease.
C. anticipated or unanticipated.
D. interest rate or nominal rate.
17. The Phillips Curve shows the relationship between _____.
A. short and long run.
B. inflation rate and unemployment rate.
C. price level and real GDP.
D. price and quantity demanded.
18. Inflation causes the redistribution of income or wealth. Which of the following groups stands to gain from inflation?
A. Debtors.
B. Creditors.
C. Pensioners.
D. Savers.
19. Cost-push inflation is caused by _____.
A. a decrease in the cost of inflation.
B. an increase in the cost of production.
C. lower indirect taxes imposed by the government.
D. lower aggregate demand.
20. Cyclical unemployment exists because some workers _____.
A. have lost their jobs, due to technical factors.
B. quit their jobs to look for better jobs.
C. lack soft skills.
D. have lost their jobs during a downswing in the economy.
21. The number of people unemployed equals _____.
A. the number of people employed divided by the labour force.
B. the labour force plus the number of people employed.
C. the labour force minus the number of people employed.
D. the number of people employed minus the labour force.

Continued...

22. If the unemployment rate initially equals its natural rate, then if the inflation rate rises above its expected rate, the unemployment rate _____.
A. remains constant.
B. equals the natural rate.
C. falls below its natural rate.
D. rises above its natural rate.
23. All people in the working-age population can be divided into _____.
A. potential employees.
B. labour force participants.
C. either over-employed or under-employed.
D. employed, unemployed, or not in the labour force.
24. Suppose the current unemployment rate is 5 percent, the labour force is 400 million people, the labour force participation rate is 80 percent and the working-age population is 500 million people. What would be the number of people who are unemployed?
A. 5 million people.
B. 15 million people.
C. 20 million people.
D. 100 million people.
25. As a result of greater access to the internet, there is an increase in the speed with which unemployed workers are matched with suitable jobs. This will _____.
A. increase the natural rate of unemployment.
B. decrease the natural rate of unemployment.
C. not affect the natural rate of unemployment but reduce structural unemployment.
D. not affect the natural rate of unemployment but reduce frictional unemployment.
26. Diana quit her job in Perlis and moved to Cyberjaya to be close to her family. She is currently looking for work, so she would be considered as _____.
A. a discouraged worker.
B. cyclically unemployed.
C. seasonally unemployed.
D. frictionally unemployed.

Continued...

Refer to *Exhibit 1* for questions no. 27 to no. 29. *Exhibit 1* shows the production possibilities in Malaysia and Thailand.

	Malaysia	Thailand
Rice (kg)	10	5
Palm Oil (kg)	10	2

Exhibit 1

27. Based on *Exhibit 1*, it is _____ costly to produce _____ in _____ than to produce them in _____.
- A. less; rice; Malaysia; Thailand
 - B. less; rice; Thailand; Malaysia
 - C. more; palm oil; Thailand; Malaysia
 - D. more; palm oil; Malaysia; Thailand.
28. Based on *Exhibit 1*, _____ will export _____ and _____ will export _____.
- A. Malaysia; rice; Thailand; rice
 - B. Malaysia; rice; Thailand; palm oil
 - C. Malaysia; palm oil; Thailand; rice
 - D. Malaysia; palm oil; Thailand; palm oil
29. Based on *Exhibit 1*, Malaysia and Thailand would share the gains from trade if the terms of trade were 1 kg of rice for _____ kg of palm oil.
- A. 0.40
 - B. 0.70
 - C. 1.75
 - D. 2.50
30. Specialising in the production of a good or service with comparative advantage enables a country to do which of the following?
- A. Never have to engage in trade with other nations
 - B. Increase the variety of products that it can produce with a decrease in resources
 - C. Produce a combination of goods that lies outside its production possibilities frontier
 - D. Consume a combination of goods that lies outside its production possibilities frontier
31. A tax imposed by a government on imported goods is to _____.
- A. protect local producers from foreign competitors
 - B. protect local consumers from buying imported goods
 - C. protect foreign firms from being compete with local firms
 - D. protect foreign consumers from buying imported goods
32. The main reason why one nation trades with another is to _____.
- A. save its natural resources from rapid exhaustion.
 - B. achieve the gains of specialization.
 - C. abolish the danger of retaliation from other nation.
 - D. develop political alliances.

Continued...

33. Under a system of floating exchange rates, a shortage in a currency will lead to a(n) _____.
A. appreciation of that currency
B. depreciation of that currency
C. long-term surplus of that currency
D. long-term shortage of that currency
34. If net interest and net transfers are RM0, and a nation's purchases of foreign goods and services are RM3.5 billion while its sales of goods and services to foreigners are RM4.5 billion, _____.
A. its capital account shows a surplus.
B. it has a RM1 billion deficit in its current account.
C. it has a RM1 billion surplus in its current account.
D. it has a RM1 billion surplus in its balance of payments.
35. A government act that changes the exchange rate by rising the official price of currency is known as _____.
A. overvaluation.
B. undervaluation.
C. devaluation.
D. revaluation.
36. Which of the following is not included in the current account balance?
A. Balance of goods and services.
B. Financial account.
C. Current transfer.
D. Net income.
37. The difference between a country's _____ exports and its _____ imports is the balance of trade.
A. total; total
B. total; service
C. service; service
D. merchandise; merchandise
38. If it takes more US dollars to get an euro, then _____.
A. the US dollar and the euro appreciates
B. the US dollar and the euro depreciates
C. the US dollar depreciates and the euro appreciates
D. the US dollar appreciates and the euro depreciates.
39. If an American firm, Citigroup, earns profits while operating a manufacturing business in Malaysia, then the value of the profit is entered as a _____ value in the US _____ account.
A. negative capital
B. negative; current
C. positive; current
D. negative; official settlement

Continued...

Exhibit 2 shows the Demand and Supply of the Indian currency, Rupee in relation to the US dollar (\$).

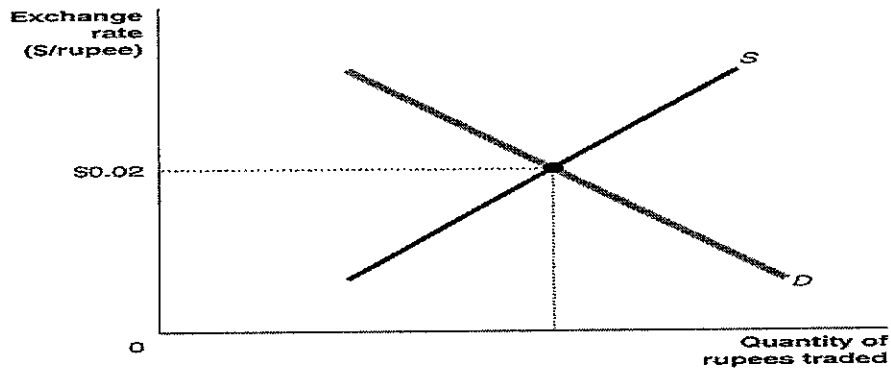


Exhibit 2

40. Based on *Exhibit 2*, which of the following is **TRUE**?
- A. The rupee is overvalued at exchange rates less than \$0.02/rupee.
 - B. U.S imports are more expensive at exchange rates greater than \$0.02/rupee than at the equilibrium exchange rate.
 - C. To achieve an exchange rate greater than \$0.02/rupee in a fixed ER system, the Reserve Bank of India must buy surplus dollars with rupees.
 - D. Indian exports to the United States are more expensive at exchange rates greater than \$0.02/rupee than at the equilibrium exchange rate.

Continued...

SECTION B: STRUCTURED QUESTIONS (60 marks)**Instruction: Answer all questions in the answer booklet provided.****Question 1**

- a) By using the money multiplier equation and the values given in *Exhibit 3*, reproduce *Exhibit 3* into the answer booklet and fill in the empty boxes.

	Initial deposits (RM)	Required reserves (%)	Total money supply in the entire banking system (RM)
a)	100	40	
b)		10	1,000
c)	200		1,000
d)	1,000		1,000
e)	0	50	

Exhibit 3

(10 marks)

- b) Describe **THREE (3)** functions of money with appropriate examples.

(10 marks)

[Total: 20 marks]**Question 2**

- a) Jamaluddin's family earned RM50,000 in 2010 and RM52,000 in 2011.

- i) What is the percentage increase in nominal income? (4 marks)

- ii) Given that the inflation rate is 5%, has Jamaluddin's family real income increased or decreased? Explain.

(4 marks)

- iii) Based on your answer in a (i) and a (ii), has Jamaluddin's family purchasing power improved?

(2 marks)

[Total: 20 marks]**Continued...**

- b) Identify who will **gain** or **lose** when the inflation rate is unexpectedly high and low in **Exhibit 4**. (Reproduce Exhibit 4 in your answer booklet.)

Unanticipated inflation	Lenders	Borrowers
High		
Low		

Exhibit 4

(4 marks)

- c) **Exhibit 5** shows the figure of working age population, labour force and employed persons in 2010. Answer following question based on **Exhibit 5**.

Year	Working age population (millions)	Labour force (millions)	Employed persons (millions)
2010	250	200	175

Exhibit 5

- i) How many people are not in the labour force in year 2010? (2 marks)
- ii) How many unemployed persons are there in year 2010? (2 marks)
- iii) What is the unemployment rate? (2 marks)

Question 3 (20 marks)

Suppose a worker in Canada could produce 20 computers or 4 cars per month. Suppose a worker in Malaysia could produce 5 computers or 1 car per month. Assume that each country has only one worker.

- a) Reproduce **Exhibit 6** that shows the units of output a worker could produce per month in Canada and Malaysia.

	Car	Computer
Canada		
Malaysia		

Exhibit 6

(4 marks)

Continued...

- b) Which country has the **absolute advantage** in the production of cars? Which country has the absolute advantage in the production of computers? Briefly explain. (6 marks)
- c) Which country has the **comparative advantage** in the production of cars? Which country has the comparative advantage in the production of computers? Briefly explain. (6 marks)
- d) Are there any gains to be made from trade? Explain your answer. (2 marks)
- e) What is the main source for gains from trade? (2 marks)

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